EXHIBIT 36

Smithfield Foods, Inc. F2Q10 (Qtr End 11/01/09) Earnings Call Transcript

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Smithfield Foods, Inc. (NYSE:SFD) Q2 2010 Earnings Call December 10, 2009 9:00 AM ET

Executives

C. Larry Pope – President & CEO

Robert Manly – CFO

Cara Aldridge – Director IR

Analysts

Christina McGlone - Deutsche Bank

Kenneth Goldman - JPMorgan

Vincent Andrews - Morgan Stanley

Farha Aslam - Stephens Inc.

Ryan Oksenhendler – Bank of America

Christine McCracken - Cleveland Research Company

Robert Moskow - Credit Suisse

Kenneth Zaslow - BMO Capital Markets

Akshay Jagdale - Keybanc

Timothy Ramey - D. A. Davidson & Co.

Operator

Welcome to the Smithfield Foods first quarter earnings call. (Operator Instructions) I would now like to turn the conference over to Cara Aldridge.

Cara Aldridge

Good morning. Welcome to the conference call to discuss Smithfield Foods second quarter fiscal 2010 results. We would like to caution you that in today's call there may be forward-looking statements within the meaning of federal securities laws.

In light of the risks and uncertainties involved, we encourage you to read the forward-looking information section of the company's Form 10-K for fiscal year 2009. You can access the 10-K and our press release on our website at www.smithfieldfoods.com.

On our call today are Larry Pope, President and Chief Executive Officer; Robert Manly, Chief Financial Officer; and Dick Poulson, Executive Vice President. This is Cara Aldridge, Director of Investor Relations.

In order to provide the opportunity to as many analysts as possible to ask questions during the Q&A session later in our call, we request that you ask only one question. If you have another question, please get back in the queue.

Larry Pope will begin our call this morning with a review of operations.

C. Larry Pope

Thank you very much Cara and thank all of you for joining the call this morning. We are reporting a second quarter loss from continuing operations this morning of $26.4 million or $0.17 a share compared with $32.5 million or $0.23 a share of loss last year.

For the six months it's a $134.1 million loss or $0.90 a share and $61.6 million loss in the prior year six month period or $0.44 a share. I hope you took the opportunity to take note of a couple of things that are going through these earnings numbers for the quarter including a benefit that the company is receiving as a result of the effective tax rate related to our international operations. Mr. Manly will speak more directly about that in his comments.

But that helped the EPS calculation some $0.14 and there's about $0.05 of adverse numbers that were laid out in the press release so we think the quarter is more like a $0.26 loss compared with a $0.23 loss last year.

I am pleased to report that we are showing an operating profit and that is a change from where we've been in the past, so I think things are turning for us. The results for the quarter clearly continue to be driven by the adverse environment that we've been experiencing in hog production now for quite some time, quite a long time.

This quarter we did improve our raising costs which we had been saying for some time we would be improving. That continues to be an improving environment as we chew through this $6.00 corn and certainly we fed the last of the $6.00 corn at the very end of last fiscal year and all of the hogs associated with that have now been marketed through the second quarter and there was about a $20 million impact of that in the quarter but there is no more $6.00 corn that will be coming through the P&L.

Unfortunately I would tell you that's being replaced with $4.00 corn so we're not back in historical levels of the $2.50 and $3.00 corn but we are far below those levels that we had previously locked in. I know the big concern out there is what's going on with sow liquidations and whether the herds are liquidating to the point that we have a balance back and hog production can return to profitability.

We continue to take a leadership role there and we have continued to take sow reductions and liquidation in our own herds and all of that has essentially been completed from Smithfield's side, so I think we've certainly done more than our fair share in terms of what this industry needs.

Productivity has been good, and we are continuing to see the reductions as I'm sure you all follow from the Canadian imports on feeder pigs and slaughter animals. And I know that you're keeping track of the sow slaughter numbers which albeit are not particularly great, I think continue to indicate at least there is some liquidation.

I can tell you that I know in the east, its been pretty public about some of the producers on the east coast that have been cutting back besides ourselves. We are getting a little more information in the Midwest and I am saying that I have not seen the significant Midwest reduction that would probably be needed to put this industry back in balance.

I think there is some going on out there now and we have seen the tightening of supplies to our plants. You've all seen a run up in the live hog market of recent. We think that is real. We are having a touch of a weather market this week but we think that is real and I think that the information we have is some of that liquidation, people have made the decisions that its simply not worth it, that the profitability, the losses they've incurred and the profits, the opportunity for the profits are simply not there and I think we may have begun to see some of this and our people believe that the hog markets are turning and I think that's favorable for Smithfield.

The pork segment is clearly the part of the P&L that is just continuing to excel. The fresh port numbers are very solid albeit a bit below last year. They're still above historical levels. That is part of the overall environment in fresh pork, the result of cheap live hogs, and

even this quarter, this is traditionally a strong period for the company as we have the seasonal impact of the hog run.

And that's what drove a lot of the losses in live production, was not the raising costs but in fact the live hog prices which is the hog run. And what I'm pleased about is its turned even in the middle of the run. And so we've got good numbers on the pork, on the slaughter side. Our export business, I know there's been a lot of discussion about that.

Its sort of good and bad. That's the way the export markets work. Japan is certainly very weak. China is closed although seemingly going to reopen here almost imminently and on the reverse side, Russia has been good although closing as we speak and Mexico has become a big, big market for this company where before we had been selling so much in the Mexican market, that's become an extremely good market of recent to the company.

So, exports are down for all of us and the industry although of late trending back up and even in the first month of our fiscal third quarter our exports were above last year. So that part of the business has got its ups and downs but overall I think is helping the fresh pork numbers.

The big news continues to always be what's happening on the packaged meat side of the business. These numbers speak for themselves. We're reporting this morning $131.1 million in operating profits from packaged meats compared with $40.4 million in the same quarter last year and I think if you look at the year to date numbers, both the quarter and the year to date were three times the levels we were at.

And we were very pleased with the numbers we were producing last year and so these are extraordinary good numbers. The company has been focusing on this. I know I sound like a broken record saying again and again and again and again, this is the focus of the company that I have so much trouble getting so many people on Wall Street to pay attention to.

This is propelling this company's profitability and were it not for the changes we made in that the company's financial situation would have been worse than, significantly over this last year but we started this well over two years ago closing in on three years now. And I told you then I thought that you would see some big benefits of that.

Restructuring is part and parcel of the last part of this. We are not through with that from a P&L standpoint. The benefits of that have not truly impacted us except in a modest way to this point and we have projected a $55 million benefit this year. We fully expect to get that.

We got the $17 million benefit in the current quarter from the restructuring, largely showing up in packaged meats.

And we were expecting to achieve half that. So again, the benefits are coming faster than we thought they would come. And beyond that the overall structure of this, the cost structure of this end of the business and the sales disciplines we have put in place are working to a T. We have benefited from cheap raw material, I know that, and I don't expect that these raw material increase [was] associated with these hog markets.

We will see some movement back down in these packaged meats margins. Well I hope the answer is that they will not, but they likely will as the P&L moves from the packaged meats to the hogs. However I am fully convinced that what we have done in this end of the business has structurally changed who we are and we as an organization.

This is the focus of the business and all of the organization is focused around that. The management changes we made a year and a half ago with the creation of a new Chief Operating Officer for the pork group and the changes we made with a couple of the executives there are working just as we expected they would.

And all of those coming together with Smithfield I believe repositioning itself in spite of the issues we've had to deal with from a financial front that Mr. Manly has spent an awful lot of his time the last year focused on, that has not changed the focus of these operating companies who have continued to move right down the path of continuing to reposition this packaged meats business and be more disciplined and walk away from low margin business and rationalize plant capacities.

I think we had indicated that we thought that we would be able to improve plant utilization from 81% to 89%. As of this point we are at that 89% utilization rate. We have accomplished the capacity changes and that part is working. Its not going to cost us much more in capital expenditures. We had projected about $50 million. Probably going to cost us $56 million.

So we're really very close on that and that's simple because we made a decision to buy some new equipment as opposed to relocating some used equipment. But I couldn't be more pleased and I couldn't be more optimistic about what I think the packaged meats business is going to do for this company.

We have suffered some volume loss. I think we indicated in the press release we were off about 4%. If you read the first quarter press release you'll see that we indicated we were off 9%. We have stemmed those losses and some of that was the relocation of some of

the equipment and some of the business that we simply could not fulfill at that point in time.

So that is now at a sharply below where we were even the first quarter as all these shifting of plants and processing capacity around, production around, and I think this thing is settling now. And we are more than okay with having less volume. This organization has been chasing some business that we probably should not have been chasing and we are not doing that anymore and I think that's positioned us very well and the bottom line is benefiting handsomely from that.

Beyond that the international business is performing well, Poland is having a good year. Our Campofrio investment in Western Europe has turned some. Its still not where that needs to be. There's a lot of opportunity still on that side of the investment as Western Europe wrestles with the recession that's even deeper than the recession in the United States and their products are impacted as a result of that.

I won't spend but just a minute to say that I think from a financial standpoint we have turned the corner there pretty nicely, completed this common stock offering. Back in September I know Robert Manly is going to talk about, but I think we've got the liquidity to do whatever this company wants to do.

We have redirected ourselves and are not spending the time on the financial side of the business that we had been this past year and we are back to focusing ourselves toward the future and where we're going to take this packaged meats business and how we're going to increase our communication directly with the consumer and move this business even farther down the road.

I think our profit margins are trending exactly where we want them to trend but there's still more there and we have refocused the attention of this management team back to the packaged meats business because I don't think we need to spend so much time on financing anymore.

With that being said, Robert why don't you take them through your comments and I'll given them some forward-looking information in a minute.

Robert Manly

Thank you Larry, good morning everyone. With this second quarter we concluded a series of capital market transactions that we began last June. These include in August, a $225 million secured follow-on bond offering as well as the issuance of $308 million in equity in October.

We have built a balance sheet structured to remove to the extent possible covenant, liquidity, and maturity risks. While we would like to see a turn around in swine production on the immediate horizon we have built a balance sheet that can withstand the continuation of current conditions if herd liquidation outside of Smithfield continues at a slow pace and losses persist.

I will save you a repeat of our P&L and EPS results, the results for the most recent quarter reflect a higher than normal effective tax rate of 64% which when compared to a normalized rate benefited EPS by $0.14 per share. Results also include $6.5 million in impairments and one-time after-tax charges equaling $0.05 per share.

These adjustments would collectively translate our EPS loss from $0.17 to an adjusted non-GAAP EPS loss of $0.26 per diluted share. The company sales decreased for the second quarter and year to date compared to the same period a year ago. Lower unit prices impacted all major sales elements during the quarter and year to date.

Also over $100 million of the sales dollar decrease is attributed to a stronger dollar relative to the local currencies in our international operations. Domestic fresh tonnage increased 2% during the quarter while packaged meats volume declined 4%.

Tonnage in our international segment increased 17% led by advances in Animex in Poland. Our consolidated second quarter operating profit was $1.8 million, about stead with a year ago but an improvement of $75 million compared to our first quarter.

Hog production operating losses of $167 million were offset by improved performance in all other segments but most importantly by record operating profits of $174 million in the pork group. These pork group results compared favorably to the $93 million operating profit generated in the same period a year ago.

Improved performance at Animex and Campofrio combined to enhance results of the international segment for the quarter and year to date compared to the same periods a year ago. Near break-even results in our turkey operations significantly reduced losses in the other category.

Domestic live hog market prices declined 32% to $0.36 per pound this last quarter compared to $0.53 in the same quarter a year ago. This reflects continued oversupply and dampened export demand. The hog production group has continued to reduce domestic raising costs to $0.53 per pound in the quarter just finished, down from $0.58 last quarter and $0.63 per pound in the same quarter a year ago.

We anticipate further cost reductions as we move into the second half of the year to near $0.50 per pound. One housekeeping item here, please note that these raising figures are before interest. This represents a changed past practice of publishing these figures inclusive of interest. We made this change to provide these figures on the same basis as we present our hog production segment operating profits.

Results in domestic hog productions for six months reflect $34 million in impairment charges related to shuttered swine assets. International hog operations in Poland and Romania were profitable for the quarter and six months, compared to losses experienced in both periods a year ago.

SG&A decreased $30 million or 14% in the second quarter and $37 million or 9% in the first six months of the fiscal year. Lower marketing expenses and legal costs and beneficial Forex contributed to these reductions in SG&A.

Interest expense for the quarter were $71 million and $132 million year to date compared to $56 million and $101 million in the same periods a year ago. These increases are associated with higher rates of our new borrowings. I also remind you of the new accounting rule effective in our previous quarter that requires us to apply market rate of interest to our convertible debt.

We continue to estimate full year interest expense of $275 million. Depreciation and amortization for the quarter just ended totaled $59 million compared to $68 million in the same period a year ago. We project full year depreciation at approximately $245 million.

We continued to maintain a high level of discipline around capital expenditures with total spending of $99 million year to date. We may boost spending on quick payback projects as we move into the last half of the year if we see better hog production results. We remain committed to CapEx spending this fiscal year at significantly less than depreciation.

We continue to project our annual pension expense to be $67 million but have lowered our pension funding requirements by $28 million to $48 million for the year. Our effective tax rate for the second quarter was 64%. This higher than normal rate is the result of a change in mix of domestic losses and international profits. We project a full year effective tax rate between 35% and 37%.

We continue to reduce debt. Compared to the second quarter a year ago total debt declined $359 million and debt net of cash declined $781 million. Our debt to capitalization ratio continues to decline as well. The issuance of equity during the last quarter reduced

the debt to capitalization ratio from 56% at the end of the previous quarter to 51%.

On a net of cash basis the debt to cap ratio declined from 52% at the end of the first quarter to 47% at the end of the second quarter. The company has no applicable financial covenants in our domestic debt facilities at quarter end.

We had a very strong liquidity position with total cash and borrowing capacity of over $1.2 billion at quarter end. Available cash was over $400 million at the end of October. We are very aware and respectful that this results in a significant negative arbitrage.

We created this cash insurance policy to ensure adequate liquidity through the downside of the hog cycle. When we are convinced that the market has turned and we no longer need cash to support hog production losses, we will more aggressively employ this cash to fund needed CapEx and other capital uses.

The stock offering during the second quarter increased total shares outstanding at the end of the period to 165,835,632 shares. This also increased weighted average shares used in the EPS calculations for both quarter and year to date periods.

Hedging activities during the quarter resulted in a loss of $19 million. This loss was almost entirely attributed to the last $20 million of the unprofitable foreign hedge Larry had mentioned. The company has recently begun to use hedge treatment accounting for certain risk management strategies relative to live hog inventories sold to third parties.

The pork group continues to evaluate the claim associated with the fire last quarter at the Patrick Cudahy facility. Production at other Smithfield plants has been flexed to fulfill all customer needs. We expensed our $100 million casualty deductible in the first quarter. We are currently working closely with our insurance carriers and our confident we will successfully resolve the claim on terms favorable to the company.

We remain excited about the company’s financial prospects in the coming quarters. We feel more comfortable about achieving a profitable balance between hog supplies and demand. We have shed non-strategic hog production assets reducing our commodity exposure. Solid packaged meat margins continue to follow through into the third quarter.

Our pork restructuring program is on track, on schedule and at budget to achieve further improvements. Our international business is making solid contributions in live production, fresh, and packaged meats. Our joint venture and minority interest contributed profits compares to losses a year ago.

We have disciplined capital expenditure programs. Our balance sheet has never been more robust and we look forward to improved results in the second half of this fiscal year. I thank you very much for your attention and I'd like to turn it now back to Larry, thank you.

C. Larry Pope

Thank you very much Robert, I think Robert gave a very complete report there and I hope gave you reassurance on the financial front that the company has addressed what we believe were the financial issues associated with this company. We have acted with severe discipline associated with capital expenditures.

Looking forward I have indicated to the organization that we will be a little more liberal with capital expenditures. We have a lot of projects in the queue that have very quick paybacks and we are moving forward on some of those.

I think that I can saw with some confidence today that the cash that we've got on the balance sheet we likely will never need in order to meet some of the vagaries of this business. I was very concerned at the last earnings call, I think I probably said that, about the impact of the H1N1 virus as it came through the fall and winter season.

It appears to be a non-event relative to our business and seems to be dropping off the television nightly news. I think Americans realize that this is mild disease and that its part of the process of the flu for the fall and so my concerns there were not necessarily founded.

In addition it appears that the, I'll continue to be concerned that there's going to be a double dip in this economy. It looks like that there is, its not going to be now. Its going to be awhile away. The big issue is that I think that the losses in hog production are coming to an end and coming to an end pretty quickly right now.

And so that has been a severe drain on this P&L and has dragged the stock down and I understand that. People don't know when this is going to turn around. I think the futures are indicating that today calendar year 2010 you'll be profitable raising pigs and so you all are aware that we routinely take advantage of those markets and so we're looking at those pretty closely.

As well I'm pleased to report that the EPA has indicated that they're not going to at least near-term increase the blending percentages from 10% to 15%. That was certainly a big concern here just a few months ago and even until December 1. I'm not necessarily sure

they're not going to go to some higher blending rate, but at least they're looking at the science and at least the voice of those who have concerns in many industries is being heard.

And for that we appreciate the government officials and the authorities listening. Hopefully they're paying a little bit of attention to what its doing to hog producers out there and the supply of protein to the consumer, that its ultimately going to result in higher prices, but it does appear that they are listening.

And I see that today there's a positive. As Robert indicated, the restructuring will be finished. We will finish that during our fiscal third quarter. All the remaining construction to be done to relocate any of the production will be finished this quarter before the end of January.

Robert did point out the fact that we have focused this organization on return on invested capital. Going forward that's going to be an important focus of this organization. That's been very beneficial to us. As we look at the details of our operations and see whether they're delivering returns that propel this company forward.

The export markets look to be improving, China has announced the reopening, and that's going to be good. At some point Japan will recover. Japan is certainly weak today and its been one of the darker spots in the export markets but it will get better. That country will recover and it's a very good market, very, very good market for our industry and so our results are in spite of, in spite of a poor export market in Japan.

I'm pleased to say if you read my conclusions and outlooks that I'm optimistic. As Robert said he expects us to be profitable in the second half, I do too. I think that this packaged meats business is for real and going to get better, although I'm not sure on a pound for pound basis it will stay at these levels when these raw materials return.

However I think we will be well above historical levels, well, well above historical levels going forward. I am extremely optimistic about what this organization is doing and the attention of this management team. In adversity they have performed beyond my expectation and I could not say anything nicer about the way this organization has pulled together and the success that we've been able to pull off in the packaged meats even in this adverse times.

It only excites me about our cost structure and our disciplined approach to the customer going forward. This is going to be very beneficial to this company and I am looking much longer-term now. We are going towards the customer from this point forward. We are

changing our focus into something we have termed the era of Smithfield where we're going to be more consumer oriented from a company standpoint.

And we think that's going to begin to take this company from a 100% push company towards a pull company. That's not going to be a run, its not going to happen over night, just as I told you three years ago, we were going to focus on packaged meats. I'm telling you that we're now going to focus on having some pull associated with this product.

Its going to take time to do that and to introduce ourselves in some cases to the consumer in a much more real way. But I think it is the future and I think this organization is ready for it and excited for it and I think the benefits are going to be extremely good for us.

With that being said, we would welcome any questions.

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from the line of Christina McGlone - Deutsche Bank

Christina McGlone - Deutsche Bank

You did talk a lot about packaged meat kind of potentially the margin contracting because of the increase in pork prices and we have seen pork prices increase from the quarter, so I'm just curious first on the top line point of view from the volume fall of what percent, how much of that was rationalization versus how much was market forces, and then what is your outlook for the second half there as pork prices increase and if you could just specify your pork profit per pound in packaged meat as well.

C. Larry Pope

I'm not sure I got all of those questions, Cara I hope you, or Robert were writing. Let me take the big question, we are achieving I think I'm right with this, about $0.17 or $0.18 a pound on a pre-tax profit basis from our packaged meats and for those who've been following the company now for some time, I had a target, I know I keep repeating myself because I'm not sure who remembers including me, but that this organization had a target of $0.10 a pound when we were achieving numbers way below that.

We [aren't] making profits now four times, that's [inaudible]. Now that's not all because of pricing. That has a lot to do with cost structures because we've driven a lot of cost out of this thing. So what I'm telling you is that I don't believe that I'm going to continue to deliver

$0.17 and $0.18 a pound when hams and bellies and trimmings move back up associated with these hog markets.

However I do believe that they are going to be well above where we've been in the past and our organization is very comfortable that that $0.10 goal that I had as the initial goal that we will equal and very likely exceed that by a substantial margin. And so I hope that answers your question.

It will be dependent upon what the market forces out there from the competition. I think your other question was we've had a 4% reduction in volume and how do we attribute that margin to our discipline versus the market. The retail side of the business is very good. We have not seen the fall off on the retail side.

In fact we've seen some upticks in the retail side and so none of that is a result of that. We have seen some deterioration in the food service as everybody has and so we've got a bit of it with that and in then the rest of it is discipline, where we've walked away from low margin business. I don't think I could segregate those numbers to you probably today, but the majority of it I would tell you is the discipline and the walking away because we shuttered capacity.

In many cases we don't the capacity to make it without going into overtime or weekends and we're not going into overtime if we don't have a good margin on it. So the majority of this is walking away from business that we did not want. In the fresh pork business I think that's going, fresh pork is probably going to feel some of this price increase because you can't get your prices back immediately so I think that we could see some fall off in the fresh pork margins.

Although if these export markets open and China is real, China is a very large market for this industry, fresh pork margins could be okay as we go into the second half. I don't see it getting any better, let me tell you that. If anything they'll get worse and I think that you'll see the packaged meats fall off some and I think you'll see the hog profitability come up nicely.

Operator

Your next question comes from the line of Kenneth Goldman - JPMorgan

Kenneth Goldman - JPMorgan

I guess one question, if futures prices hold, I know you don't have a crystal ball but you did guide seemed fairly confidently to positive EPS in the back half of the fiscal year. Are we talking given today's assumptions in the futures market, are we talking closer to $0.10, $0.510 or $1.00 and I guess I'm not asking for specific guidance but just any kind of help you can provide there.

C. Larry Pope

I want to know whether its $0.48.5.

Kenneth Goldman - JPMorgan

Well that would be even better. Whatever you've got I'll take.

C. Larry Pope

Let me tell you this, I think that, I'll tell you this, I think that and Robert can have his own opinion, we don't give guidance as you know because that's a mistake and everybody who has seems to be steering away from it. I think the $0.10 shouldn't be too difficult, how about that. The $1.00 is certainly a challenge, so how about that.

If that gives you a range.

Kenneth Goldman - JPMorgan

You know what though, that's perfect, thanks very much.

Operator

Your next question comes from the line of Vincent Andrews - Morgan Stanley

Vincent Andrews - Morgan Stanley

If I could just ask you on China, you seem to be pretty enthusiastic about it but if I recall back to when it closed your view sort of was that it wasn't that big of a deal when it was closed because you could still get product through other geographies so, I'm just curious has something changed that it'll be better now that its opened relative to it not being a big deal that it was closed.

C. Larry Pope

The thing I would tell you now is that if it opens it means, not if it opens that's not a good comment, it is, they have announced a reopening. They're simply dealing with the health certificate. I think that we've also got information that there is a shortage going on in China

so that the demand for the product on the export, from the United States is probably improved.

So I see it better and then beyond that, I see it for Smithfield specifically because I think they're going to enforce at least in the Mainland China ports that you're going to have to have ractopamine-free product and there are only a couple of us who can supply ractopamine product.

So I think that both of those, the nature of the product and the fact that I think we were looking six months ago, I don't know how good the information is coming out of China. One period, one three month period of hog production is expanding and three months later hog production is contracting.

We do hear of disease going on in China and we think that's going to increase the demand that they would routinely have.

Robert Manly

I would make the observation certainly that if we're able to sell product directly to Chinese customers through direct ports into China as opposed to going through Hong Kong, it's a more efficient way to conduct that trade and greater efficiency should translate to better price for the customer and a better profit for Smithfield in the process.

Operator

Your next question comes from the line of Farha Aslam - Stephens Inc.

Farha Aslam - Stephens Inc.

You had mentioned that Japan was quite weak but we've been hearing that sentiment in Japan is improving regarding pork and those Japanese importers are increasing their imports of US product. Have you seen that in the recent weeks.

C. Larry Pope

I don't have any information about that in any measurable, no I have not. Maybe we're not the ones getting the orders. And we've got some pretty good customers, we've got some pretty good long standing customers. Now with that being said, the month of November was a good month for us but not a particularly good month for Japan for us.

Our volumes in Japan are still down over 20% and have been down over 20% so, Robert have you heard anything.

Robert Manly

At one point there was some discussion about potential orders after the first of the year that would come in after they have gone through their Christmas holidays but at this point in time I think its too early to really predict what's going to happen in the latter part of January shipments.

C. Larry Pope

We're not seeing it—

Robert Manly

We're three or four weeks away from really getting a good view as to what's going to happen after the first of the year.

Operator

Your next question comes from the line of Ryan Oksenhendler – Bank of America

Ryan Oksenhendler – Bank of America

I noticed that you said you expect hog production losses to come to an end but I'm finding a sense of where possibly will go going forward, and if I look back over the last eight quarters you've lost about a billion dollars and just looking at profits from 2005 to 2007 you made about a billion dollars so you've been break-even over the last couple of years. I think your normalized number is about $10 to $12 a head, has your view on that changed at all.

C. Larry Pope

I would tell you that I believe that the profitability of hog production for the next several years is going to be below historical margins. And I believe that 2010 for the hog industry is going to be a profitable year but I don't think its going to be any where near historical levels. We've still got $4.00 corn out there. We're still going to have raising costs somewhere in the high 40's to very low 50's depending on your cost structure.

And so the futures markets are indicating that the markets next year are about $52.00. So that puts you $4 or $5 ahead profit in raising pigs for the industry. So I think its going to be a year of profits but I don't think its going to be a year of what I'll call unsatisfactory profits.

Ryan Oksenhendler – Bank of America

Because you sound a little less, you sound more cautious on sow reductions, where does demand have to go for you to get back to $80 a head in profitability.

C. Larry Pope

Demand, we've got pretty solid demand. We would have to have, for us to have that and have this less level of hog production, we're going to have to have the export markets wide open pulling this product and food service to come back to full roar, what I call full roar levels. I don't think that is going to be.

I think that the sow reductions have got to continue to occur because productivity in this industry has been very good so with the same sows we're going to produce more meat and we're producing heavier hogs so that's producing more meat.

We've got to continue to have I believe there needs to be continued sow liquidation of 3%, 4%, 5% in this industry and there's a lot of controversy about that comment that I just made but I believe that there needs to be at least 3% more if not 5% additional sow liquidation and I'm not sure people are going to do it.

Everybody is to make their own individual decisions and I'm not sure its going to occur. I think there are people who can't get any more money from the bank and they're going to have to do something as a result of that. But I think you'll see gradual continued liquidation and I think it will be another year as we work through these reductions that probably need to occur.

Operator

Your next question comes from the line of Christine McCracken - Cleveland Research Company

Christine McCracken - Cleveland Research Company

You had mentioned that some of your plants are beginning to see the impacts of herd reduction in the Midwest, I'm wondering relative to that if you expect any inefficiencies here, let's say over the next year or so and then once, if we do go to this additional 3% to 5% is it your expectation that we'll have to shut a plant, are we going to be out of balance again, and what does that mean for hog prices and your overall efficiencies in your plants.

C. Larry Pope

I would tell you that we are in the Midwest, we have begun to have trouble getting enough hogs to run these plants. For the first time we're really having days when we're having trouble filling the kills out. I think you probably will see a plant or two if we see this three or four or five occur, I think you will see a plant go down. If not one, maybe two.

I think that, I think it could be ugly on the fresh meat side if this hog market runs up strong, it could be ugly trying to pass all this through as you know with pricing. So I think the cut outs could be real crappy and these inefficient plants would be at risk.

Christine McCracken - Cleveland Research Company

Is this something you're considering or is this something you expect the industry to do.

C. Larry Pope

I'll reserve that comment except to say that I think this is something that the industry will do and we may or may not be part of that.

Operator

Your next question comes from the line of Robert Moskow - Credit Suisse

Robert Moskow - Credit Suisse

I was doing some simple math which is always dangerous, but if hog prices are say $0.17 a pound higher next year, in the $0.52 range, maybe that's more than it is on an annual basis but do you think that you would have to pass on all of that in the form of pricing in your packaged meats division and I was just thinking if you have three billion pounds of packaged meat that's about $510 million of pricing to pass through just roughly speaking. Is that how you look at it or is packaged meat kind of like a, so farther down the line of derivatives of the pig, it doesn't really work that way.

Robert Manly

I think that there is somewhat of a disconnect between packaged meats pricing and what the fresh meat pricing as seen in the retail case. I would make the statement that I believe that retail margins are at, as far as fresh meat are concerned, at some very, very high levels today. And that the consumer is paying a higher price perhaps than what is being reflected in the live price that we're selling [inaudible] to and that the cut out is reflecting as far as retail pricing to our customers.

So I think that there's the ability to raise hog prices up and that there is the ability to pass those on within the retail segment without having to raise dramatically prices to consumers which I think speaks well for our ability to pass on price increases next year without having the total collapse in terms of the margin structure we enjoy today.

Robert Moskow - Credit Suisse

Can you just talk a little bit about the competition you're seeing in other retail packaged meat product lines. It seems like all the players are performing pretty well. Do you, where do you think pricing is going to go on, hot dogs and luncheon meats and things like that. Is it a pretty stable environment.

C. Larry Pope

I would tell you that, you're right that a rising tide lifts all boats and I think if you look at Tyson and Hormel earnings, there's have been up nicely and raw material has helped with that. Ours I think are up, the slope of our line is substantially different than theirs but I guess your question is do you think we're going to be able to pass all this through.

And I don't know. Pork is still very, very competitively priced compared to chicken or beef. Its still a very competitively priced product. There's no question that no retailer today wants to see a price increase on their packaged meats because they're feeling the pressure of their customers. However pork is still very cheap and I think that's going to be the challenge of the industry because raw material is not going to be as cheap going forward.

I think our margins there will slip some but I do think that, I think there's no new capacity being added by anybody and if anything, people are shuttering capacity like we are and so there's not a lot of options there other than the consumer not to buy the product.

And given the pricing where we're at, pork is priced, I think we're in a good position to be, to continue to maintain some good margins.

Operator

Your next question comes from the line of Kenneth Zaslow - BMO Capital Markets

Kenneth Zaslow - BMO Capital Markets

You said the industry needs to cut another 3% to 5%, if the hog producers are starting to make money what would be the incentive for them to cut the extra 3% to 5% and how would this emerge, how would it come about because we've had this issue a couple of

times over the last three years.

C. Larry Pope

Well I guess they could, if they could sell, if these sow markets were strong they could sell their pigs, they could sell them for more. And if they continue to, I will say these farmers continue to have pressure from the banks and Robert could speak better than I can. I would tell you that I am concerned the pressure is not as severe as it was.

However we've still got $4.00 corn out there. And it could be $5.00 corn over night. If we get some bad plantings next spring, we could have anything to happen around the world, something to happen on the oil market. We could have $5.00 corn and I think farmers have learned that while their cost structure today might look like they could make money, I don't think very many of them have taken hedged positions with their input costs and so I think they're fully exposed in large measure to these grain markets.

So if something happens on the grain markets they'd be right back in the soup. And I don't think the pressure is as much as it was but I do think there are people who are at least I'm hearing a little bit more of this now, that there are people who are simply saying, I'm not going to stay in this business. I'm going to be in a different business.

Now I wish I could tell you it was big numbers.

Robert Manly

And I think to some degree there is a fairly substantial portion of the industry that has been able to survive over the past year because of the good graces of their bankers. And that while they may be able to return to some level of profitability I think that their banker is going to say, you need to get your balance sheet well before we're going to provide you with more capital to expand.

So I think that we have been living under the influence of the banking community and their desire to keep a number of these smaller producers in business and not have to take over the farms. I think they're going to be reluctant to provide lots of capital to have a rapid expansion.

Kenneth Zaslow - BMO Capital Markets

Do you think your balance sheet is where it needs to be and I'm assuming your appetite for any more capital raises is done, is that a fair assessment.

C. Larry Pope

That is a fair assessment. I think we told you when we did that, the common stock equity offering in September that our capital markets transactions were done.

Operator

Your next question comes from the line of Akshay Jagdale - Keybanc

Akshay Jagdale - Keybanc

Can you just talk about the cash flow a little bit for this quarter, there's nothing in the press release but what was cash flow from operations this quarter.

Robert Manly

Its been $120 million year to date.

Akshay Jagdale - Keybanc

And just if I hear what you're saying on the hog production side, I just want to make sure I'm getting what you said which is you think hog production profitability will be below normalized next couple of years, is that correct.

C. Larry Pope

That is what is said.

Akshay Jagdale - Keybanc

And historically when I look at your hedging practices and I know you've changed your disclosure there, but typically you've been more active in the market on the grain side and I think part of that is because the market is not as liquid on the hog side, but can you just talk about the opportunities that exist to capture some of the favorable market conditions that futures are showing.

C. Larry Pope

They're there. That's a simple as I can say it. There are opportunities to capture the margin so that's, and as you know we are, we're generally astute with the futures market. I can't say we did such a great job on $6.00 corn but generally we've been pretty good on that and I think that, the only thing I would leave you from this call is we won't miss this opportunity, how about that.

Akshay Jagdale - Keybanc

On the pension side, I think you mentioned that your reducing or your estimate for pension contributions is coming down, can you just explain why that's the case.

Robert Manly

Those were changes in actuarial values as the government required and they just said you need to put in less cash recognizing that that was very, very sensitive subject with many companies as the value of their portfolios declined and they had to, had a bigger delta they had to try to make up in terms of shortfalls of their pension plans.

C. Larry Pope

So we're just complying with some modifications. The government has given some relaxed funding rules and we're simply taking advantage of those.

Robert Manly

We haven't done anything brilliant compared to the rest of the industry, its just taking advantage of what opportunities we have.

Operator

Your next question comes from the line of Timothy Ramey - D. A. Davidson & Co.

Timothy Ramey - D. A. Davidson & Co.

You state in the press release you've never been more positive about the earnings power of the company and I too am looking for a profit in the second half, but earnings power is a pretty powerful statement given that you've suffered a lot of dilution on the equity, you've significantly raised your interest expense bogey, you've cut management bonuses to a point that's probably not sustainable over the long-term, what would make you confident to say that the earnings power of the company is at its greatest level.

C. Larry Pope

I could, thank you for asking that question, you couldn't have teed that up better if I'd been able to feed you the question. And incidentally for the rest of the callers on this call, I did not give him that question.

Timothy Ramey - D. A. Davidson & Co.

If he did I wouldn't have asked it.

Robert Manly

I'll remember that one.

C. Larry Pope

But the point is, what excites me is that we have been trying to focus for several years in redirecting this company away from a commodity based play on the grains and the hog markets and simply pushing meat out the door, fresh and processed.

And now we have in fact you see, I've changed the language to packaged meats even away from processed meats. It probably should be processed and packaged meats, but the fact is the opportunities for us from a margin standpoint, we've been selling too cheap and we have made so many acquisitions that we had not gotten our plant operating cost structure where they needed to be.

We have made an enormous effort towards that and that effort is starting to show up on the profit that's showing up in the pork group and I think if you'll go back and track the profitability in the pork group and then subdivide that, which you've not been able to do, into the packaged meats, you would see that this is an earning stream that's been going straight up.

Now Robert has only been successful these last two quarters in breaking out fresh versus packaged meats, but I assure you this has been an upward sloping line in a big, big way. And we still haven't gotten it all. And finally we haven't yet begun to talk to the consumer in any significant way. Many people buy our product because they're the cheapest one in the store.

I wish I could say people go in and buy Smithfield product because its got our brand name on it and its got pull associated with it. We've only got a minor amount of pull. We're going to convert this company now to have more pull associated with that and I think given the cost structure we got for that, we're very good manufacturers now.

I think the opportunity for margin improvement beyond where we're even at, is still very significant. Its going to be slow and its going to be continual and I'm just telling you those of you on the call, and so I think yes, we have issued and I guess now we're about 166 million shares or something like that, so we have created the dilution.

And I had this exact thought process when we started doing that, that this is creating dilution and I said then, I'll take the dilution because the earnings power of this company is such that I believe we're changing us to the point that that dilution will be easily covered as we go forward.

Now, I want to make one final point, our interest cost is up. I don't like that. Although we had cheap money before, we've got what I'll call expensive money today. As we improve this bottom line, and Robert is successful at deleveraging this company which he continues to be pushing me and I'm committed to do, we will see the banks come our direction.

We've got to return to profitability and as we do these banks will loan us money, our credit ratings will improve again. Our spreads will come down and our interest cost will come down. I'm counting on that.

Robert Manly

I think the exciting thing from my perspective is being able to match a financial strategy that Larry just described as far as deleveraging the business and improving in ROIC and matching that with the improvements that Larry talk about on an operating basis. So I think we're able to follow both parallel track in terms of improving the overall financial stability of the company as well as the operating capabilities.

And ultimately lower our cost of capital.

Cara Aldridge

Operator we're going to have to end the call here and turn it back to Larry for some closing remarks.

C. Larry Pope

Well thank you for listening this morning and I know that we've sort of disappointed this management team with quarter after quarter of losses and I can assure you its no fun here in Smithfield to be incurring those on a weekly basis and reporting them to you.

This has been a challenging period for this company. I do think the challenge period is coming to a close. I think that the management team that I'm lucky enough to be associated with has done an enormously good job on a number of fronts and many of you have commented about that.

I want to follow on to where I just was, I think that this packaged meats business, we're going to at least get your attention towards that which we seem to have a difficult time doing. I appreciate the fact that this morning we didn't spend the entire call talking about the corn market and the hog market, that you see there's something else to Smithfield beyond that.

We are building a platform here that I believe is very strong and not yet complete but getting close. And then we're going to turn our attention towards being more forward in our marketing campaign and I think that's sort of the next phase of this company. It will be a multi year phase but I can assure you we're going that direction which I think will drive these margins once again.

Thank you very much for listening and thank you for your support for the company. We hope we don't disappoint you.

Comments (0)